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Family Office Group
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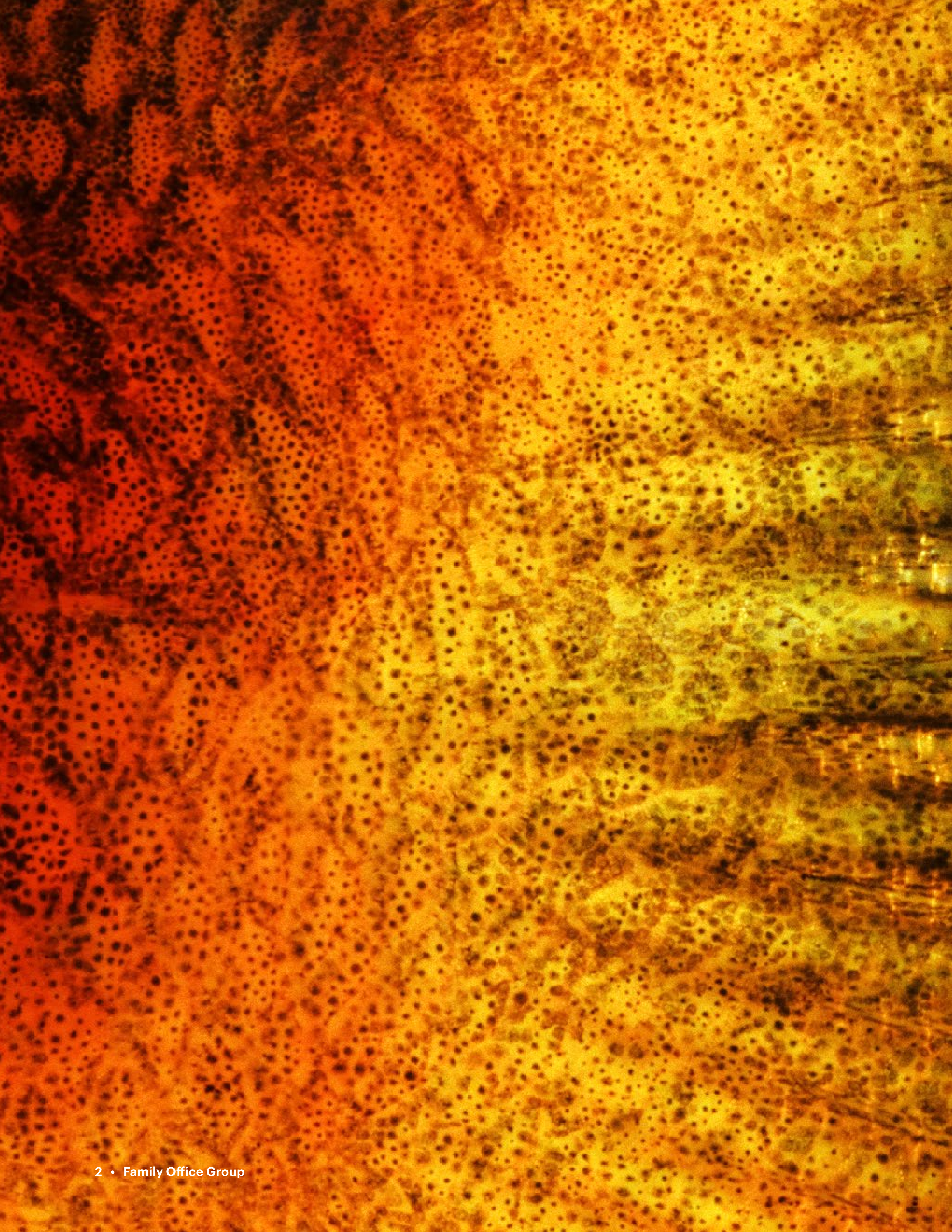


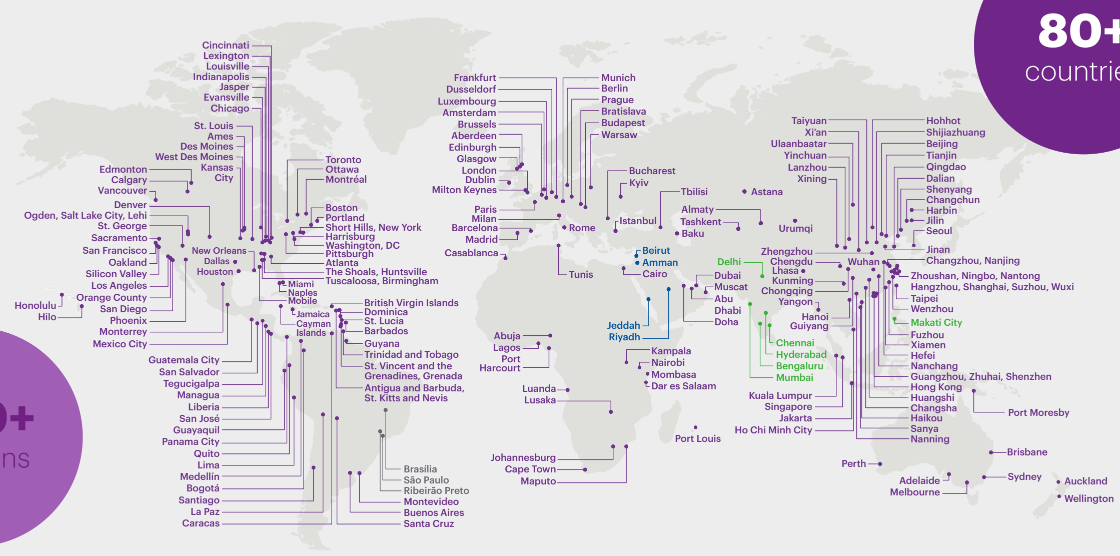
About Dentons

Dentons is designed to be different. As the world's largest law firm with 20,000 professionals in over 200 locations in more than 80 countries, we can help you grow, protect, operate and finance your business. Our polycentric and purpose-driven approach, together with our commitment to inclusion, diversity, equity and ESG, ensures we challenge the status quo to stay focused on what matters most to you.

DENTONS BY THE NUMBERS 2023

80+ countries

200+ locations



Locations in purple represent Dentons offices.
Locations in blue represent associate firms, offices or special alliances as required by law or regulation.

80+
languages spoken

US$47,250,000+
value of pro bono and volunteer work

12,700+
Total number of lawyers

15,500+
All timekeepers

21,000+
Total number of people

*MAP AND FIGURES INCLUDE COMBINATIONS APPROVED AND ANNOUNCED IN 2022.

On structures and structuring

Part 1: 101 questions family offices should ask their lawyer

Part of the challenge of building and running a family office comes from strategy…or sometimes the lack thereof…when putting the pieces into place and then dealing with the day-to-day operations. The reality is that family offices often come together through an evolutionary process that on close inspection looks more like the assembly of Frankenstein's monster than a highly technical manufacturing process.

However this is understandable. Family offices are entities that are created or leveraged by families to address their specific needs and achieve their specified goals. The notion of an "ideal" family office is just that—something that exists in theory, but is subject to the particular (and sometimes oscillating) needs and motivations of its principals. Expecting perfection of design and operation is a recipe for frustration for both family members and family office advisors alike.

However, noise in the process of building or operating a family office does not mean that all is lost. The existence of family offices is neither a recent nor Western-originated phenomenon. Examples of how wealthy families organized their affairs and assets exist throughout history, potentially starting with the ancient Babylonians. Babylonians' cuneiform tablets recorded astronomical data, market prices of agricultural products, water levels of the Euphrates and other important pieces of information. One might even describe them as an early form of "consolidated investment reporting." It is therefore likely that even the Babylonians also struggled with the perennial problem of producing timely, accurate and actionable analysis of family assets and affairs.

Rule of Three

The process of building a modern-day family office has its own unique frustrations. Families should consider a "Rule of Three" adage when starting a single family office from scratch: (i) be prepared to spend three million dollars; (ii) recognize that it will take three years to feel like you actually have a functioning family office; and (iii) be ready to quit three times during the entire setup process.

Understanding what archetype or model of family office is the "best" fit for a family is also complicated by the passage of time. Families, even ones in Babylonian times, are not set in stone. They evolve and adapt to new circumstances and changes in requirements and motivations. Predicting exactly what services a family office will need to provide five, twenty or a hundred years from now is therefore virtually impossible.

The good news is that there are copious lessons to be learned from history, from advisors who specialize in working with family offices, and directly from other family offices.

This white paper will focus on family office structures and structuring. Its aim is to provide insight into the decision-making process surrounding the structuring of a family office and the importance of getting one's legal house in order to build and maintain a structure that serves the family's needs efficiently and effectively. Proper financial and legal planning can have enormous benefits but are difficult areas for family offices to consider because of the specialized experience needed, shifting requirements, the expense of maintaining such expertise in-house, the difficulty in finding that experience, and the general lack of data broadly available on this topic.

Family office product-market fit: What to expect when you're selecting

In a previous white paper,1 we explored the benefits of sorting family offices into distinct archetypes. Classification and research in this domain can help deepen one's understanding of family offices with the aim of improving their operations and effectiveness.

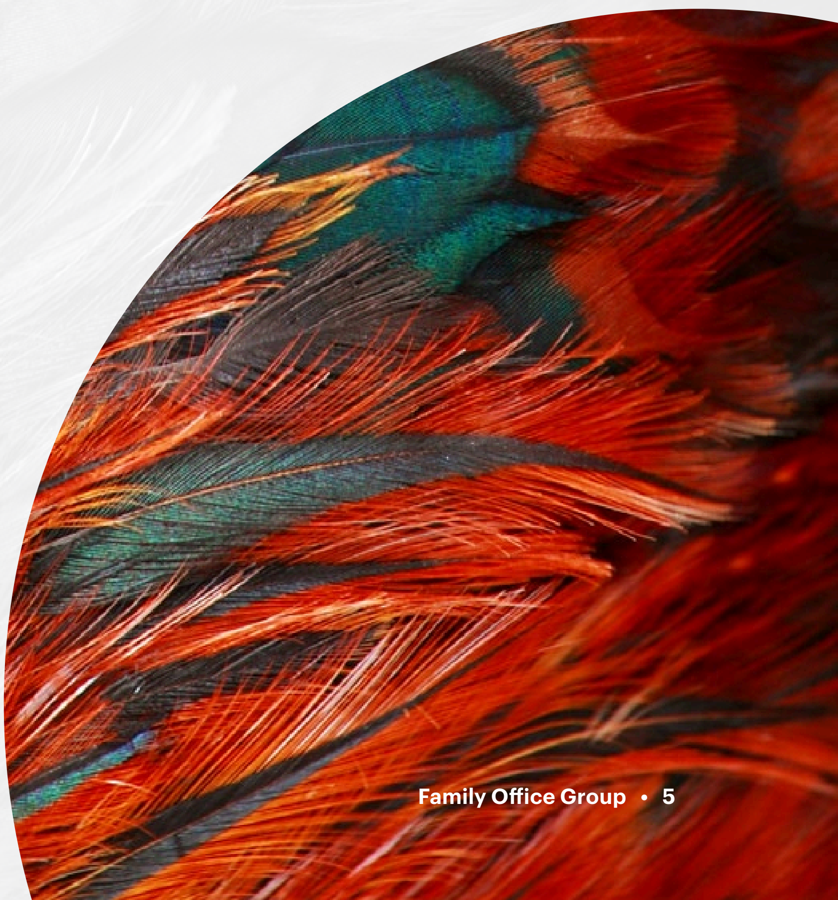
A few common question about family offices arise when individuals reach a certain level of net worth:

- What does a family office do?
- Do I need a family office?
- What level of net worth do I need to have a family office?
- What type of family office solution should I use and why?
- Who should I hire?

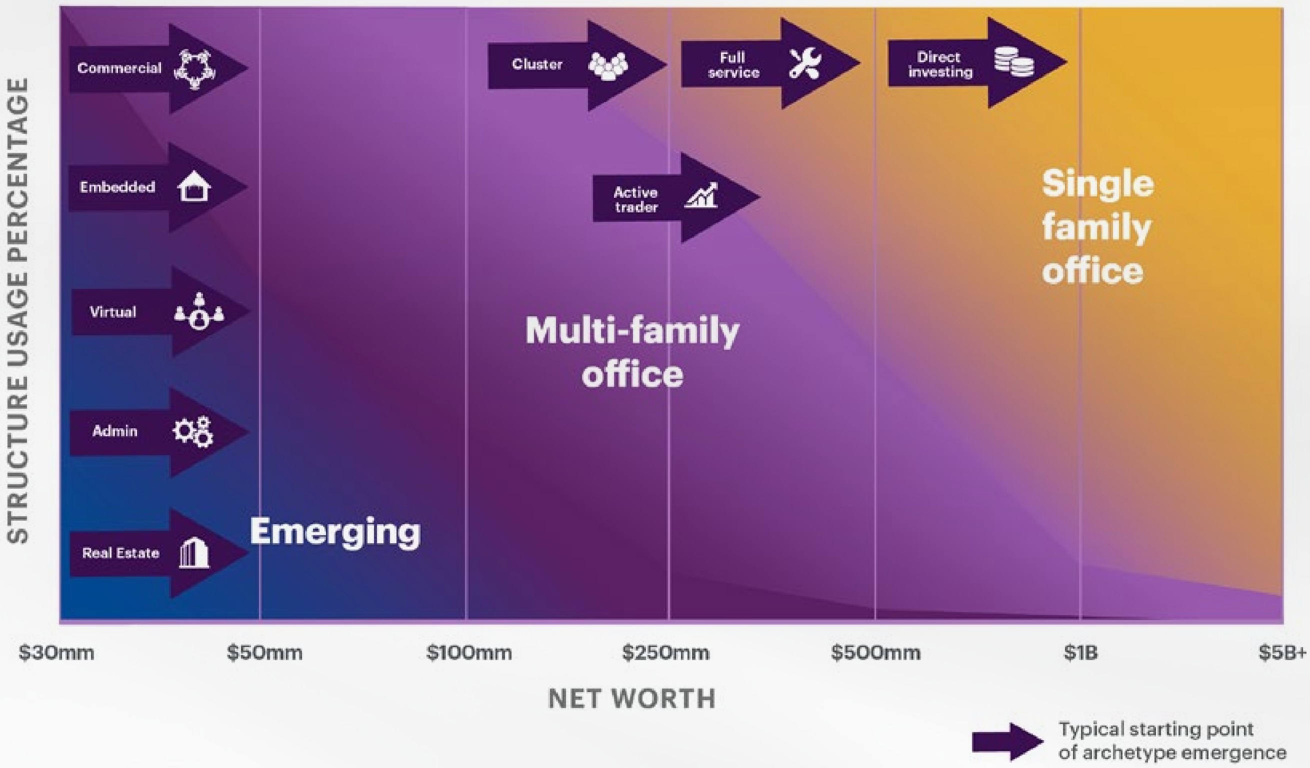
1 “Using the ‘Anna Karenina principle’ to better understand and operate family offices”. Click here to download.

The issues of level of net worth and what type of family office one should consider are questions that come up quite often. There is no bright-line test for determining when to create a family office. There is no legislation, regulation or agreed-upon industry-wide or industry-agnostic practice that dictates what level of net worth one needs to have to know when and how a family office structure should be considered. On one hand, this freedom is a good thing, as it allows principals the flexibility to choose structures and strategies that fit their specific needs and motivations. On the other hand, the lack of a "gold standard" can lead to families making subpar decisions around structuring their family office, hiring and other operational matters. This often is one of the causes behind the stultification described in the aforementioned **Rule of Three**.

> **The issues and challenges family offices face are predictable and thus, families can work with their advisors to mitigate potential risks in advance. Preemptive planning is a lot less expensive and stressful than remedial clean-up.**
>
> — *Gary Gartner*, New York



The chart below aims to serve as a guide for advisors to families, family office staff and family principals grappling with the questions: "At what level of net worth does it make sense to have a family office?" and "What family office solution should we use?". Like Hamlet, its aim is to help you answer the question whether "to be or not to be" a family office (with a dash of Romeo and Juliet's "Wherefore art thou?"). We hope it relieves some of the mental anguish caused by these common family office questions.



The above chart is divided into three main categories: emerging, multi-family office (MFO) and single family office (SFO). The chart also contains the archetypes of family offices, as well as the net worth levels at which families commonly decide whether to create a family office, employ an MFO strategy or blaze a bold path and create their own SFO. The placement of the archetypes indicates when they most commonly appear.

"Most common" is an important phrase to keep in mind when referring to this chart, as there will be many exceptions and outliers (e.g., the family worth $50 million that decides to form an SFO or the billionaire who outsources most of their family office functions to a commercial MFO). However, the existence of outliers does not diminish the value of the above framework as a starting point for advisors to families and family offices when initiating conversations around family office structure and strategy. This chart can also help existing family offices in reconsidering their current approach and can assist in indentifying areas of possible improvement

Gradually, then suddenly

Lastly, often families will take a staged approach to building a family solution. It takes time to refine a strategy that is a good "fit" for the family (see Rule of Three). Families spend considerable time and effort landing on a solution that is the right balance of in-sourcing/outsourcing operations. Sometimes this will manifest through use of consultants, banks, wealth managers, lawyers, MFO/RIAs and the like.

These family office stepping stones provide both opportunities and potential hazards for families. Navigating these potential snares effectively requires keen insight and relevant experience.

> **Advisors to family offices need to see beyond the present. An advisor needs to take the journey with the family now and in the future and wants advice that cements the family's legacy in history.**
>
> — *Doris Bonora,* Edmonton

Navigating the path and methods to achieve desired goals for a family office is a complex process. The variables in play when a family office is started versus in motion (let alone for multiple generations) are numerous and hard to understand for an outsider. Therefore, the strategic planning for family offices can feel like a dead reckoning process versus a finely-calculated GPS satellite guidance system.

The dead reckoning is a navigation technique based on estimating the position of a moving object by comparing it to a "known" previous position. Dead reckoning is often subject to a snowball of errors. Get the first "fixed position" wrong, and everything else estimated from there can cause more problems. The dead-reckoning method relies on understanding distance, speed, direction, and elapsed time.

If we go back to our fond memories of Physics 101, we were taught that Distance = Speed x Time. This formula works well in a vacuum and if one ignores error causes, such as directional drift, currents, wind, weight, air density, drag, and the like.

A similar problem can occur if we plan in a vacuum with family offices. Let's consider a completely hypothetical formula used to predict family office goals such as Goals = (Motivations x Velocity of Wealth Creation) / (Level of Wealth + Number of Family Members).

Such a formula doesn't take into consideration such critical factors as: how the values and motivations of principals evolve and vary among generations, the time post-liquidity event a family has lived with wealth, the maturity of the family office and its operational capabilities, how the potential for geographic spread of family members over time, how many generations are served by the family office, the source of wealth and industry associated with operating companies, the known and potential unexpected costs required to achieve goals, and how "off the radar" family members want to be.

Ignoring these variables, among many others, leaves family members, family office staff, and family office advisors in a potentially confusing position, making operations clumsy and staff feeling like they are constantly putting out fires instead of driving toward well-defined goals. Moreover, family offices can often be "shareholders of one," but they are just as often "stakeholders of many." These stakeholders often are the source of (and sometimes the cure for) the increased complexity wealthy families experience over time.

101 questions family offices should ask their lawyer, Part 1

As family offices look for ways to improve their structures and revisit their legal strategies, we offer the following set of questions to help you engage with your legal team. Please note that this list is not all-inclusive, but merely a starting point to help navigate each family office in the right direction. The complexity of each situation may dictate that additional queries be contemplated. Knowing which questions to ask and when to ask them is critical to the success of each family office. There are no easy answers in the family office realm. However, the below sample questions are imperative for each family office to consider.

Getting started[2]

- What experience do you have working with family offices and family businesses?
- Is your experience local, national or global?
- What are the legal services that you typically provide to family offices that look like ours?
- Does your experience with different family offices provide you with best practices that you can share with us?
- What are the key legal issues to consider before, during and after a liquidity event?
- Are all of your legal services billed hourly or can you deliver work on a flat-fee-per-project basis?
- How would you build a team to handle the legal and non-legal matters relating to my family office?
- Do you (or your firm) have access to a network of family office general counsels?
- Are the business entities currently affiliated with our family office optimally structured across all areas that we should consider, such as income tax, estate tax, securities regulation, privacy, etc.?
    - What legal considerations and potential pitfalls exist with respect to embedded family offices (i.e., where employees of the family business perform the same function as a single-family office)?
- If members of the family are investing together and/or separately, what legal structuring should we consider?
- Would our family office benefit from a holding-company structure? Should one or more trusts own the family office legal entity? What is a family office management company? Should we consider using a holding company for our investments?
- What are the advantages and disadvantages of using a family limited liability company (FLLC) or a family limited partnership (FLP) in our family office or family business?
- How can we exercise optimal control of a family office or family business through the use of legal entities and strategies?
- How can we build governance strategies into our family office to ensure alignment of family interests, values, goals and succession plans?
- What is the regulatory environment in the jurisdiction where our family office will be located? If the family office provides services to family members who are located in multiple jurisdictions, does that raise any regulatory issues? What are the local jurisdiction requirements for advisors to the family office? What would be the best jurisdiction for all concerned?
- Have we titled all assets owned by the family effectively and efficiently?
- What are the legal issues to consider when (a) outsourcing or (b) bringing family office services in-house?
- What shareholder and operating agreements should we create to support the family office operations? How will such agreements define the relationship between the family office and related entities?
- In what jurisdiction should we form the family office, and why?

Regardless of their size, scope, or maturity, family offices most importantly need a "Chief Get-Stuff-Done Officer". This function often is implicitly embedded as an extra part of the role of a CFO, CIO, or a CEO. However, managing family office-related projects requires a distinct skill set, large network of relevant contacts, anda good amount of creativity and problem-solving proficiencies.

— *Edward V. Marshall,* New York

2 The observant reader will note that there are more than 101 questions listed listed in the combined paper (parts 1 and 2). We wanted to include specific advice from different jurisdictions. Even more questions are found on our website: www.dentons.com/familyoffice

General investing

- If we are considering direct investment strategies, what specialized entities should we create and why? What are the legal considerations if we participate in club deals with other family offices?
- Can you provide legal and non-legal due diligence prior to an acquisition or disposition?
- How can we properly structure profits interest structures?
- What are the decision points around creating special purpose vehicles (SPVs) for individual investments? Should the SPVs be owned by a trust or a holding company, and why?
- How do we evaluate all of our investment activities to ensure we are following applicable securities laws?
- Based on our current and/or planned activities, does the family need to register or make other filings with relevant securities regulators (e.g., in the US, the Securities and Exchange Commission (SEC) or in Singapore, the Monetary Authority of Singapore (MAS))?
- What are the legal considerations to insourcing rather than outsourcing our investing activities?
- If our SFO wants to transition to an MFO or RIA (registered investment advisor) model, what are the legal and non-legal considerations to keep in mind?
- What legal considerations are there for family offices that invest in cryptocurrency or blockchain-related assets (e.g., NFTs)?
- How do we properly structure cross-border investments? What do we do if we have family members investing together and they have different citizenships and/or places of residence?
- How can we conduct a red-flag review of illiquid investments (e.g., private equity, hedge funds, direct investments, etc.)?
- How can we use investment policy statements (IPSs) to help guide and interact with the family's investment advisors (in-house or outsourced)?
- If we invest successfully, does the family office team get compensated? How are such arrangements designed to align the family office team with the family?
- What securities regulations should one be mindful of when considering a family office?
- How should we determine our shared family capital vision?

Investing and owning real estate

- What structuring considerations are there with respect to personal real estate owned by individual family members?
- What structuring considerations are there with respect to real estate owned by the family business or the family office?
- What are the structuring considerations if the family office wants to invest in real estate, or to finance (or refinance) its existing real estate investments? What if only some members of a family want to invest or participate in a real estate financing?
- What special considerations exist for specialty real estate asset classes, such as multi-family housing, hotels and hospitality assets?
- What asset classes and investment types do you have significant experience with?

Venture capital and private equity

- How much legal due diligence should we undertake as an investor or co-investor in an early-stage investment?
- What are the risks associated with SAFEs (simple agreements for future equity) and similar convertible instruments?
- Which representations and warranties should we give and which should we avoid when making direct investments?
- What minimum rights should we seek to negotiate as a minority investor, and why?
- How can we take advantage of double taxation treaties when structuring our investments?
- How does one mitigate one's risks when serving on the board of a portfolio company? How can we use insurance to address these risks?
- How do our rights differ when investing in a club deal as opposed to a fund?
- What co-investment and other rights should we negotiate when investing into a fund?
- What are the pros and cons of investing in secondaries?
- Where are the legal risks of paying finders fees for deals?
- What are registration rights and why do we need them?

The Lender Management strategy (US-based family offices)

- What are the facts and circumstances of the 2017 case of Lender Management, LLC v. Commissioner of Internal Revenue, and are they relevant to my family office?

What is the difference between Internal Revenue Code Sections 212 and 162, and is this relevant to my family office?

Family offices are increasingly looking to Singapore as an attractive jurisdiction. Understanding government incentives, tax and legal nuances, investment opportunities, and the business landscape is critical to success. Our team has supported both single and multi-family offices set up shop and thrive in this innovative market.

— *Edmund Leow,* Singapore

- What are the factual differences between the Lender case and Hellmann v. Commissioner of Internal Revenue, and are they relevant to my family office?
- If my family office is organized in a Lender Management-type fashion, do we need to or can we manage investments for non-related other families?

This list of questions is the first in a two-part series. The second and final part will be released separately.

About the author

Edward V. Marshall is the Global Head of Dentons' Family Office and High Net Worth group. He is also a family office insider and a leading family office researcher, advisor and published author.

For more information on how Dentons works with family offices, please visit www.dentons.com/familyoffice

Surveying the Risk and Threat Landscape to Family Offices Insights and Recommendations

Introduction

The risk and threat landscape for family offices continues to evolve and present new challenges. COVID-19 created new risk issues for families to consider and manage, but the pandemic is only one dimension of the increasingly complex threat envrionment that family offices face.

Risks to wealthy families are nothing new. John D. Rockefeller, and other magnates of his era, used family offices to oversee their vast fortunes. However, Rockefeller's family office never had to deal with cyber ransomware attacks or privacy breaches stemming from the social media accounts of his children.

The evolving ways that family office risk and threat management systems can be breached has made the task so much harder. Executives continue to struggle to find effective responses to these multi-faceted threats (physical, financial, health, cyber, and privacy-related).

Moreover, the attitudes around risk of many principals and family office executives opens this group up to specialized problems. Vendors and families alike have seen this manifest itself in: 1) an underestimation and overlooking of threats; 2) frustration and perplexity concerning effective protective measures; and 3) a reactionary mindset at family offices or constantly putting out operational fires.

The figure on the next page provides a view of the multitude of risks and threats that family offices face and a list of services that vendors have available to protect and mitigate those problems. The figure also illustrates the common barriers that prevent both family offices and vendors from working effectively today, specifically around:

- Lack of relevant risk and threat benchmarks for family offices;
- Lack of risk awareness by family offices;
- Self-diagnosis of risks and threats by family offices;
- Misalignment of vendor services and a lack of relevant experience in working with family offices;
- Failure to implement strategic planning around risk and;
- General complacency or prioritization of convenience over security in a family office environment.

THE FAMILY OFFICE RISK VENDOR LANDSCAPE: RISK AND THREAT CONSEQUENCES

PROPERTY DAMAGE	DISCLOSURE OF SENSITIVE INFORMATION	HEALTH ISSUES OR DEATH	BUSINESS DISRUPTION	IDENTITY THEFT	KIDNAPPING OR STALKING
WORKPLACE VIOLENCE	REGULATORY PENALTIES OR LAWSUITS	LOSS OF INVESTMENTS	FINANCIAL OR LIQUIDITY ISSUES	TECH OR OPERATIONAL FAILURE	CRISES OR DAMAGE TO REPUTATION
	BURGLARY OR ROBBERY	FRAUD AND EMBEZZLEMENT	THEFT OF INTELLECTUAL PROPERTY	ASSAULT	

LACK OF BENCHMARKS • LACK OF RISK AWARENESS • SELF-DIAGNOSIS OF THREATS • VENDOR SERVICES MISALIGNMENT
LACK OF STRATEGIC PLANNING FOR RISK MANAGEMENT • PRIORITIZATION OF CONVENIENCE OVER SECURITY

RISK SERVICES CATEGORIZED BY SOURCE OF THREAT TO A FAMILY OFFICE

INTERNAL SOURCES

- Background checks on employees and business/ personal associates
- Insider threat program - family and employees
- Personal security awareness training
- Workplace threat management and training
- Continuity of operation
- Common operating picture

BLEND

- Investment and general business due diligence
- Regular threat assessments
- Psychological profiling
- Acute medical emergencies
- Chronic medical conditions
- Reputation management
- Internet of things
- Crisis management

EXTERNAL SOURCES

- Protective details
- Residential, estate and commercial facility security
- Threat intelligence
- Kidnapping and terrorism threat management
- Private aviation and maritime security
- Collectibles and high-value item security and logistical support
- Technical security countermeasures
- 24/7 watch centers
- Natural disasters

To study these issues with the aim of shedding light on some of the underlying causes of these problems, we conducted a research project to better understand the family office risk landscape. We asked over 200 family office insiders to give us their thoughts on risk and threat matters they face every day. The results were illuminating and answered many questions and provided some unexpected insights into the risk management characteristics and behaviors of family offices. These findings open new areas to evaluate and present opportunities for families and vendors to address risk more effectively.

Key Findings

An online survey conducted by our partners with over 200 family office executives at single and multi-family offices, primarily in the US, has uncovered some worrying approaches to the risks family offices face, particularly cyber risk, family-related risk, investment risk and employment-related/insider risks.

1

POOR RISK MANAGEMENT MINDSETS

A change in mindset is needed at many family offices, which either underestimate threat levels (47%) or are complacent about risks (41%). Limited staff, as well as an emphasis on cost and convenience, are other obstacles to better risk management.

2

PREVALENCE OF CYBER ATTACKS ON FAMILY OFFICES

A change in mindset is needed at many family offices, which either underestimate threat levels (47%) or are complacent about risks (41%). Limited staff, as well as an emphasis on cost and convenience, are other obstacles to better risk management.

3

UNDERESTIMATING CYBER RISKS

Smaller and newer family offices underestimate both the likelihood (15% compared to 25% at larger family offices) and potential impact of cyberattacks (38% expect a major or catastrophic impact from a cyberattack compared to 52% at larger family offices). Older and larger family offices are more likely to have implemented cybersecurity measures (60% versus 31% for newer family offices).

4

LACK OF COVID-19 READINESS

Almost three-in-ten family offices (29%) did not have a business continuity plan in place before the COVID-19 pandemic. And over a quarter (27%) said implementing secure remote working protocols is one of their top risk management challenges.

5

NEED FOR INCREASED TRAINING AND STRESS TESTING

While over half (58%) of family offices have trained employees and family members on risks, only around a quarter (28%) have conducted stress tests or scenario analysis to back up training and planning.

6

NEED FOR BETTER INSIDER THREAT INTEL AND PROCEDURES

Eighty one percent do not conduct periodic background checks on all personnel, with 68% only doing this when staff are first hired.

7
FINDING GOOD VENDORS IS A CHALLENGE

For over a third (35%) of family offices finding a good external risk and threat management vendor is a major challenge, along with a lack of tailored approaches for family offices (35%) among external vendors.

8
POTENTIAL RISK VULNERABILITIES CAUSED BY THIRD-PARTY VENDORS

Over a quarter (28%) of family offices have never carried out a review of the risks and threats from using a thirdparty vendor.

9
A FOCUS ON DOWNSIDE INVESTMENT RISK

Mitigating tail risk is the most common primary focus for family offices (36%) when considering investment risk.

10
HEALTH AND TRAVEL RISKS ARE NEGLECTED

International travel and health advisory risk and threat management services are neglected by a large majority of family offices. Only 16% use medical advisory services, despite the disruption from significant health issues and the increasing sophistication of medical advisory and risk management tools.

11
NEED FOR A STRONG PEER NETWORK OF FAMILY OFFICES CENTERED AROUND RISK

Over a quarter of family offices have developed a network of family offices to share best practices and vendor recommendations, while almost 60% want to see more conferences to help do this.

Risk and Threat Management Overhaul Needed

A Culture of Underestimating Risks and a Need to Change Family Office Mindsets

Family offices face a range of challenges, from an uncertain investment climate, to the repercussions of the global COVID-19 pandemic, to the operational challenges of maintaining privacy and managing assets securely in a digital world. While most family offices, manned by experienced and capable professionals, may feel able to cope with the investment issues they face, risk and threat management is becoming a tougher nut to crack. While their relatively small size can bring advantages, such as speed and flexibility, the inherently limited budget at many family offices can make risk management more challenging due to a potential lack of resources and specialized expertise.

Furthermore, if family offices lack the internal expertise, controls, and technology infrastructure to defend against the wide-ranging hazards they face, then the threat of these risks could be multiplied by poor attitudes towards risk management, characterized by a mindset of complacency and underestimating risk.

The survey findings clearly show how a dangerous combination of limited resources and poor attitudes could expose family offices in terms of risk management. For instance, 42% of respondents put underestimating or misperceiving the risks as one of their top risk management challenges. If risks are being underestimated, this helps explain the finding that 41% of respondents state that complacency is one of the main obstacles in implementing risk management measures in their family office.

Other findings provide more evidence that family offices are in danger of falling short on risk management, due to deficiencies in their mindset and culture, as well as a lack of suitable resources. So while 29% of family offices say having limited staff is a top risk management challenge, this is compounded by around a quarter (26%) of family offices having a reactionary, rather than preventative approach as one of their top risk management challenges, along with 24% agreeing that not prioritizing risk management is a significant challenge.

FAMILY OFFICES FACE VARIOUS RISK MANAGEMENT CHALLENGES

What are the top risk management challenges for your family office?

- 42% Underestimating/ misperceiving the risks
- 29% Limited staff
- 27% Secure remote working protocols and behavior
- 26% Reactionary rather than preventative approach
- 24% Not prioritizing risk management
- 23% Lack of context and experience with risk and threat management
- 21% Lack of reliable benchmark data of threats against family offices
- 19% Lack of vendors with tailored approaches for family offices
- 13% Lax internal controls
- 12% Poor technology infrastructure
- 8% Not outsourcing risk management to professionals

% Yes, Multiple answers allowed

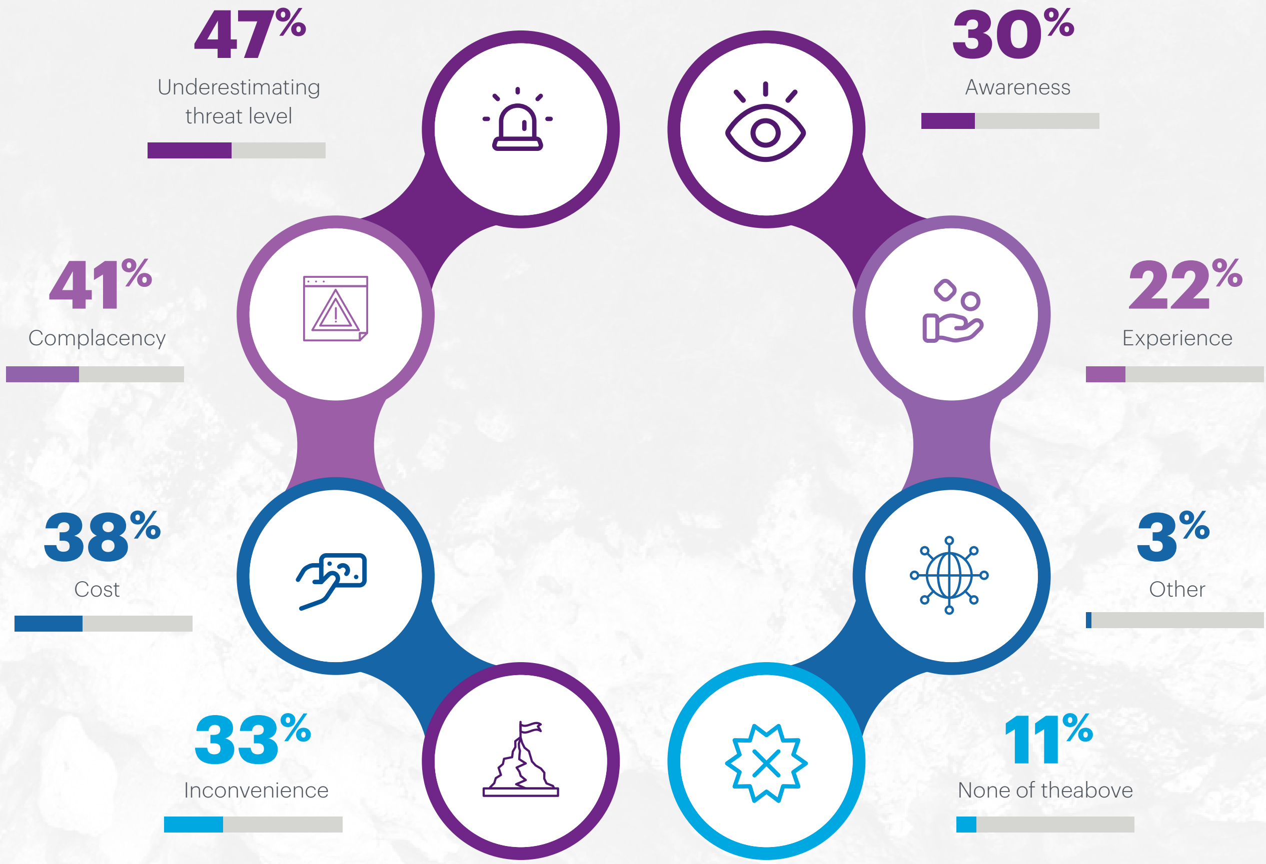
Allied to the challenges of remote working and risk management, nearly a quarter (23%) of family offices put a lack of context and experience with risk and threat management as a top risk management challenge. A smaller number (13%) see lax internal controls as a top risk management challenge, while 12% cite poor technology infrastructure and just under one-in-ten (8%) cite not outsourcing risk management to professionals as risk management challenges for family offices.

Two other risk management challenges are finding reliable benchmark data on the threats to family offices and also vendors with tailored approaches to family offices. Around one in five family offices give these two issues as top risk management challenges for them. Again, these challenges add to the worrying picture of a lax and complacent approach to risk management, and a lack of staff and other resources that are needed.

As well as needing to improve their mindset towards risk management, family offices also face cost and inconvenience, among other obstacles to risk management. Nearly four in ten (38%) family offices cite cost as a main obstacle and a third (33%) see inconvenience as an obstacle. Awareness (30%) and experience (22%) can also be obstacles to implementing risk management measures at family offices. These findings further show that family offices need to address both cultural issues and also find the resources needed to ensure that their risk management systems are capable of dealing with the mix of threats they face.

UNDERESTIMATING THREATS AND COMPLACENCY ARE OBSTACLES TO RISK MANAGEMENT AT FAMILY OFFICES

What are the main obstacles to implementation of risk management measures in your family office?



% Yes, Multiple answers allowed

Over 25% of Family Offices Have Been Hacked... Now What?

Just over a quarter (26%) of family offices have suffered a cyberattack in the past and nearly a fifth (17%) say this has happened within the last 12 months. These results show that cyberattacks are a very real threat for family offices.

Over half (54%) of family offices say that they are prepared for risk to their organization in the coming year, while 38% are somewhat prepared. However, this finding is at odds with other results, such as the fact that 47% of respondents say underestimating the threat level is obstructing the implementation of risk management in their family office, or that 41% say that complacency is an obstacle to the implementation of risk management measures at their family office. These findings strongly suggest that many family offices are overestimating their risk management capabilities, especially when taken with other findings on the risk management challenges faced by family offices.

CYBERATTACKS AGAINST FAMILY OFFICES

Has your family office suffered a cyberattack in the last 12 months?

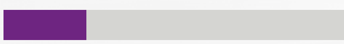
17%

Suffered a cyberattack in the last 12 months

Has your family office ever suffered a cyberattack?

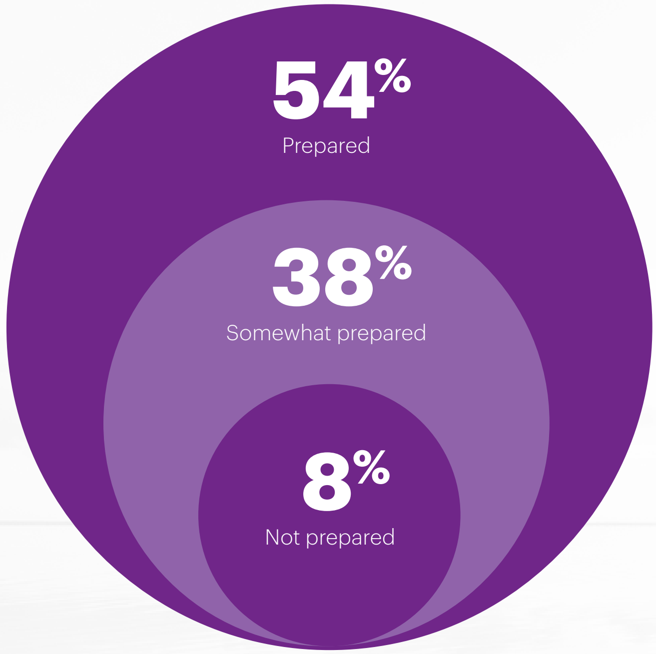
26%

Have suffered a cyberattack



FAMILY OFFICES ON THEIR RISK MANAGEMENT ABILITIES

How prepared are you in dealing with risks to your organization in the coming year?



> **Of note is that on the one hand so many family offices are open about their security shortcomings... acknowledging that they routinely underestimate/misperceive the threats... but on the other hand, 54% of family offices believe they are prepared for the risks next year. This disconnect shows the importance of working with outside experts to help see the forest through the trees and to protect against complex risks.**
>
> *— Chad Sweet, The Chertoff Group*

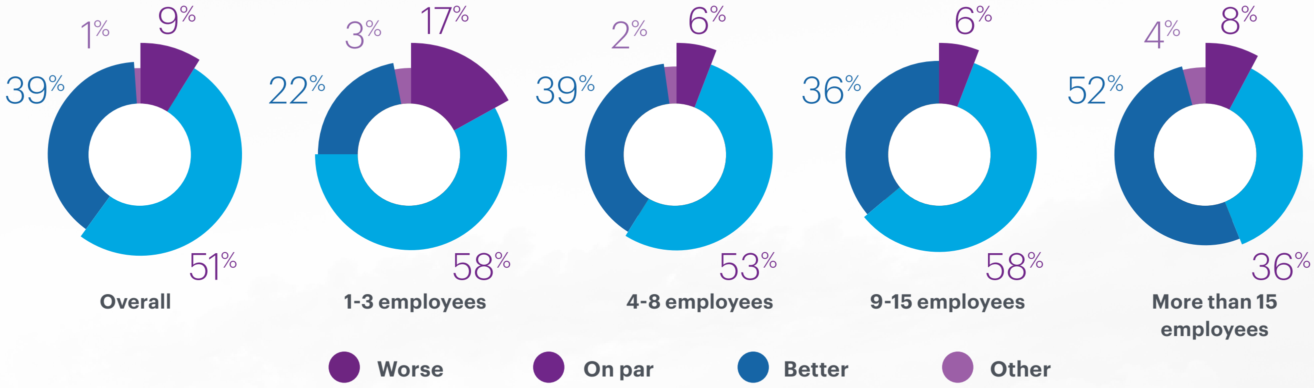
The risks of overestimating risk management programs by family offices are also shown by the finding that 39% of respondents think that their family office risk management program is better than their peers, while 51% see it as being on a par with their peers and only 9% see it as worse than their peers. These results are consistent with the finding that as many as 41% of family offices say that complacency is an obstacle to risk management at family offices. In any event, the mismatch between these findings and results elsewhere suggest that a comprehensive review of risk management could be very timely, given the fact that cyberattacks are becoming more common and remote working is increasingly the norm, due to COVID-19.

When comparing themselves to their peers, smaller family offices with less staff are less likely to rate their risk management program as better than their peers. Only 22% of family offices with three or fewer staff do this, compared to 52% for family offices with more than 15 staff, 36% for those with nine to 15 staff, and 39% for those with four to eight staff. Here, smaller family offices are likely to be less sophisticated in terms of using risk management programs and also be aware of this shortcoming.

Almost three-quarters (73%) of family offices say their overall risk budget in their family office has stayed the same in the last year. One in four (26%) say it has increased and only 1% say it has decreased.

LARGER FAMILY OFFICES SEE THEIR RISK MANAGEMENT PROGRAMS AS BETTER

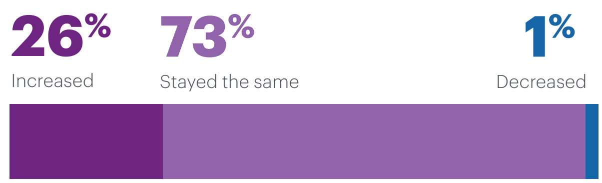
Relative to your peers, how would you rate your family office risk management program?



MOST RISK BUDGETS UNCHANGED IN THE LAST YEAR

How has the overall risk budget in your family office changed in the last year?

Almost three-quarters (73%) of family offices say their overall risk budget in their family office has stayed the same in the last year. One in four (26%) say it has increased and only 1% say it has decreased.



Misconceptions Over the Threat of Cyberattacks

The survey finds that family offices could be vulnerable to cyberattacks as a result of misconceptions about the nature of cybercrime and a focus on short-term convenience over longer term planning and risk management. This further backs up the findings on a poor mindset and resource constraints which may hamper effective risk management.

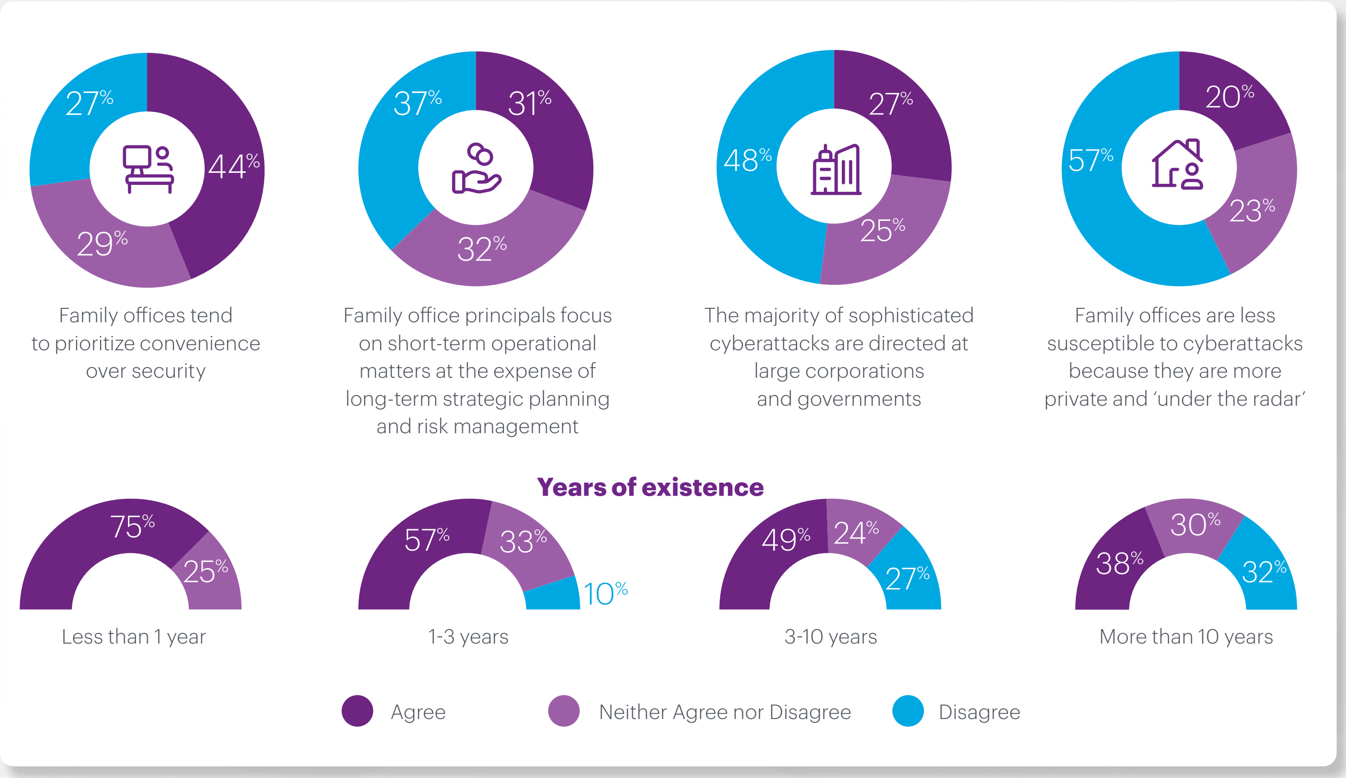
44% of family office respondents agree that family offices tend to prioritize convenience over security, while 31% agree that family office principals focus on short-term operational matters at the expense of long-term strategic planning and risk management (and 32% are neutral on this). These findings add weight to the view that risk management is less of a priority and focus for family offices than it should be.

At the same time, many respondents see cyberattacks as less of a threat to family offices, compared to larger and more prominent institutions. Over a quarter (27%) of family office respondents agree that the majority of sophisticated cyberattacks are directed at large corporations and governments, while exactly a quarter are neutral on this. And a fifth of respondents believe that family offices are less susceptible to cyberattacks because they are 'under the radar' and another 23% are neutral on this.

Taken together, this indicates that there are family offices with a weak grasp on security and risk management, and that also believe cybercriminals are less likely to target family offices, which could, in the circumstances, be a dangerous belief to hold.

One interesting finding here is that newer family offices are more likely to agree that family offices tend to prioritize convenience over security. Over half (57%) of family offices in existence for up to three years agreed or strongly agreed, with this, compared to 49% in existence for three to 10 years and 38% in existence for more than 10 years. Here, it is likely that older family offices have learned through experience that security is more important than convenience, a lesson which younger family offices are likely to learn with the passing of time.

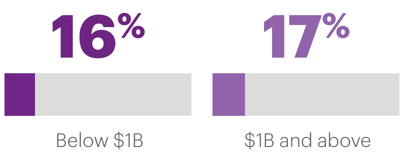
MANY FAMILY OFFICES FOCUS ON CONVENIENCE AND THE SHORT-TERM



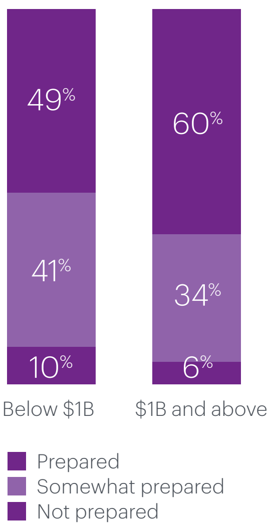
> **Family offices face the challenge that there is little or no ROI on proving a negative from what-if scenarios. For every dollar spent in other parts of a FO or organization, security many times is overlooked because it cannot be measured until a problem occurs. At that point, it's too late. Remediation and incident response could cost orders of magnitude higher compared to being proactive and being ready with an effective defensive risk and threat management game.**
>
> *— Jeremy King, Benchmark*

Smaller Family Offices (by Asset Size) Underestimate Cyberattacks

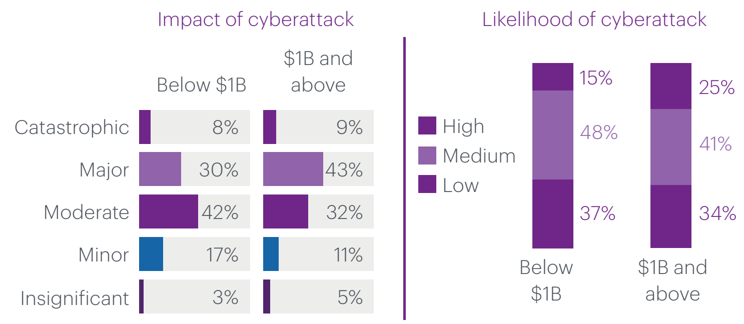
DESPITE FACING A SIMILAR NUMBER OF CYBERATTACKS IN THE LAST YEAR…



SMALLER FAMILY OFFICES ARE LESS PREPARED TO HANDLE RISK.



…SMALLER FAMILY OFFICES UNDERESTIMATE CYBERATTACKS -BOTH ITS IMPACT AND LIKELIHOOD.

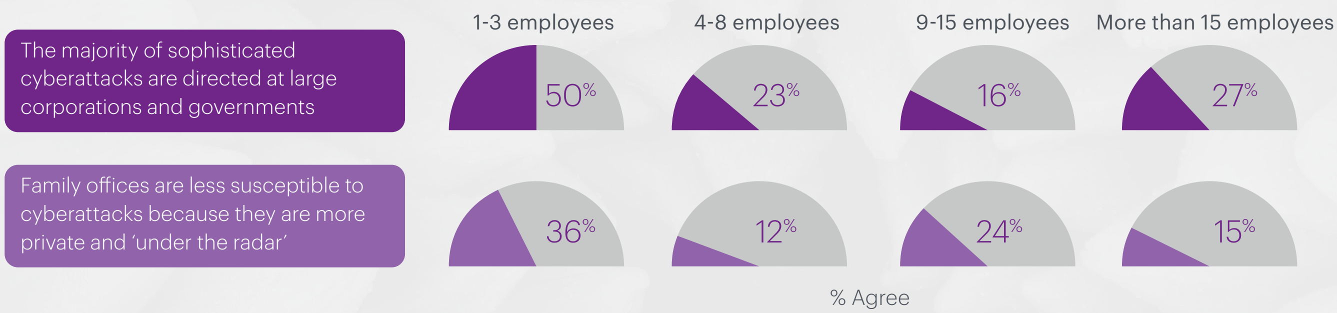


CYBER RISKS ALSO RANK LOWER THAN INVESTMENT RISKS FOR SMALLER FAMILY OFFICES.

Below $1B	
Investment risks	59%
Cyber risk	52%
Family related risks	52%

$1B and above	
Cyber risk	62%
Family related risks	60%
Investment risks	46%

SMALLER FAMILY OFFICES, IN TERMS OF STAFF MEMBERS, HAVE DIFFERING VIEWPOINTS FROM LARGER FAMILY OFFICES.



Misalignment of Needs and Services

A Need for a Better-Coordinated Set of Risk Management Services

With cybersecurity among the top risks, it is a little surprising then that less than half (47%) of family offices offer cybersecurity as a risk management service. In addition to cybersecurity, insurance (68%) and legal services (51%) are among the top risk and threat management services implemented by family offices as part of their operations.

However, few family offices provide holistic risk and threat management services. Critical services like privacy and reputation management, physical security, international travel and personnel evaluation and monitoring are provided by only about a quarter of family offices.

> **Rapid innovation in medicine has created an amazing opportunity to reduce health risk and measurably extend healthy life. However, the same rapid innovation cycle creates information and health system navigation gaps that leave even sophisticated family offices struggling to choose optimal solutions.**
>
> — John Prufeta, Medical Excellence International

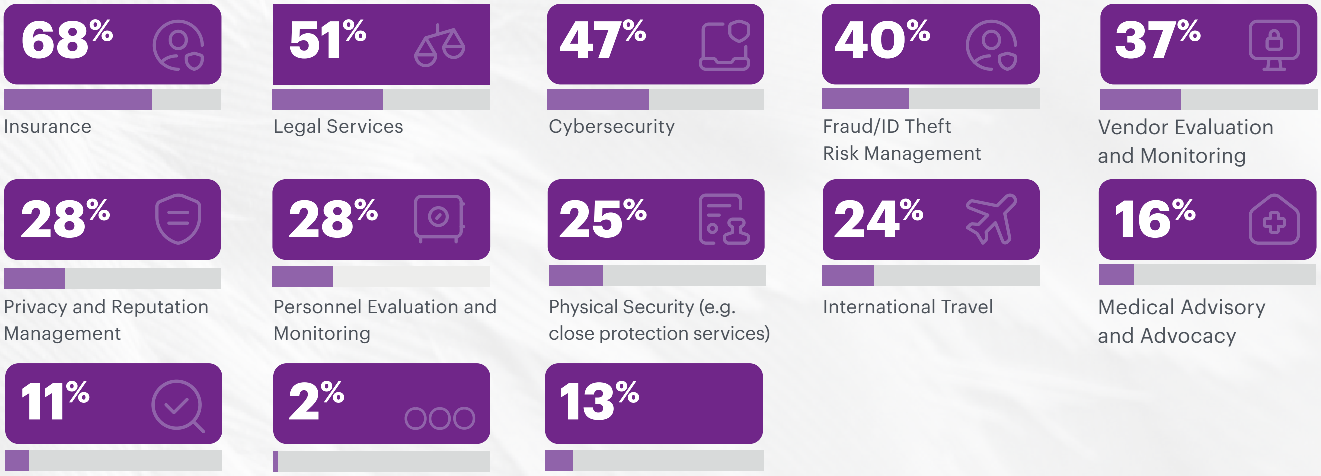
International Travel and Health Advisory Services are Critical Risk Services but Infrequently Implemented by Family Offices

The survey data suggests that family offices have developed strong risk management mechanisms within the financial risk management domain. However, much more common is the major disruption of family affairs and continuity due to significant health issues or untimely death. Yet only 16% of respondents of the survey indicated that they hire professional management for their health care risk management.

Today, the tools one has to manage health risk and significantly increase longevity are now actually better than the financial risk management tools used to protect wealth. Private health advisory for family offices offers an array of sophisticated tools for preventive diagnostic health assessments, carefully coordinated major case management and global coverage in case of emergency.

RISK AND THREAT MANAGEMENT SERVICES IMPLEMENTED BY FAMILY OFFICES

Which of the following risk and threat management services do you implement as part of the family office operations?



% Yes, Multiple answers allowed

How Family Offices Are Tackling Cybersecurity

Given the increasing risks of cyberattacks on family offices, there is an urgent need for family offices to implement cybersecurity measures to protect themselves. This has been addressed to an extent, although it is clear that more can, and should, be done.

For example, 72% of family offices have trained staff on how to work properly and securely in a remote environment. Given that the COVID-19 pandemic has led to most investment professionals having to work remotely, this is a basic requirement for family office personnel. If over a quarter of family office staff have not been trained in working safely from a remote location, this represents a potential vulnerability at this time.

A similar number (69%) say that they actively manage all hardware and software on the family office network. Again, while it is good to see that this is being done by most family offices, it means a significant number are not doing this. As remote working during the pandemic could lead to family office personnel using new devices and software, it is more important than ever to maintain network security at family offices.

Around half of family offices use a variety of cybersecurity measures, including:

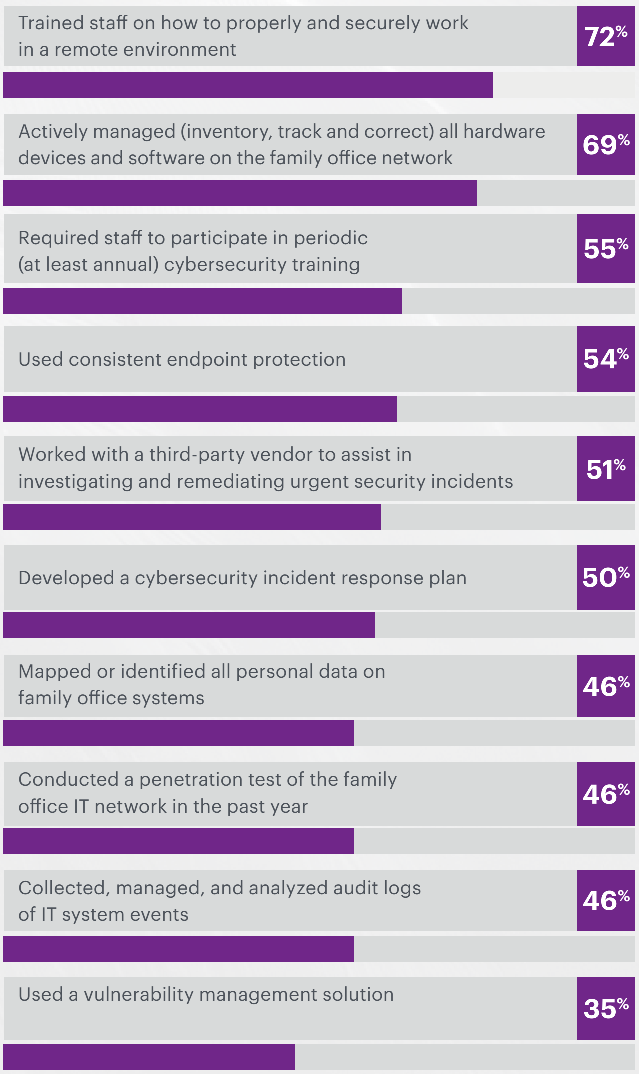
- Requiring staff to participate in periodic cybersecurity training (55%);
- Using consistent endpoint protection (54%);
- Working with a third-party vendor on investigating urgent security incidents (51%);
- Developing a cybersecurity incident response plan (50%);
- Mapping or identifying all personal data on family office systems (46%);
- Conducting penetration tests of the family office IT network in the past year (46%); and
- Keeping and using an audit log of IT system events (46%);

While it is good that these cybersecurity measures are being used, it could be argued that they should be used by virtually all family offices.

It is also surprising that only just over a third (35%) of family offices say they have used a vulnerability management solution. Whereas firewalls and antivirus software tools defend a network against attack on a reactive basis, a vulnerability management solution will actively look for weakness in a network and then take remedial action on a priority basis to reduce or eliminate vulnerable areas in a network. It is therefore a more proactive approach to assessing and managing cybersecurity and should be used more widely by family offices.

CYBERSECURITY MEASURES

Has your family office taken any of the following cybersecurity measures?



Looking at the age of family offices, it is clear that older family offices, (in existence for more than 10 years), have generally taken more cybersecurity measures compared to newer family offices, (with less than 10 years' existence). For example, older family offices are more likely to have developed a cybersecurity response plan (60% for older family offices versus 31% for newer family offices), collected, managed and analyzed audit logs of IT system events (56% versus 33%), required staff to participate in periodic cybersecurity training (62% versus 44%), and mapped or identified all personal data on family office systems (53% versus 36%).

These differences are likely a reflection of a more structured and comprehensive risk management approach at older family offices, which is very likely to be due to their greater experience and resources. Family offices that have been set up more recently are more likely to be concentrating on investment and financial risks as priorities, as they commence operations. But these newer offices still need to take action on cybersecurity, as it is a major threat to all family offices.

Family Offices Fail to Carry Out Regular Background Checks on Staff

Insider threats stem from legitimate users who have approved access to computer systems in an organization. Threats from insiders can develop from either nefarious intent to cause harm to networks or from unsuspecting staff or family members who unintentionally compromise information systems or leak data. Insider threats can also come from former employees or third parties who have regular or privileged access to systems.

In the family office context, it is quite common to see employees with outsized access to information because of the lean staffing nature of most family offices. Combined with a focus of efficiency of operations over effective security and the low resource allocation to IT and security functions that family offices encounter, insider threat issues are abundant in the family office world.

Moreover, detecting insider threats is not easy. They already have access (sometimes privileged access) to systems, they have valid access to systems, and determining the difference between malicious or nefarious activity versus regular activity can be difficult.

The study presented some interesting results on insider threats that should be examined further in future research, especially insider threats resulting from family members.

Personnel evaluation and monitoring is another critical service offered by only 28% of family offices. Of note, 81% of family offices fail to conduct regular background checks on family office staff. While 68% of family offices conduct background checks on hiring, most of them neglected to conduct follow up evaluations which creates a large source of vulnerability for family offices. More than one in ten (13%) never conduct background checks.

Only one in ten (12%) cite employee related/insider threats to be among the biggest risks facing family offices and a quarter say their impact will be catastrophic or major. Only 17% think these risks are likely.

Of those who conduct background checks, the data they are most likely to review are criminal records (86%), employment verification (80%) and professional licensing (72%).

Family Offices Need to Look to Outside Risk and Threat Expertise

The failure of family offices to use third-party security experts was a very interesting finding of this report. It underscores the importance of education of principals and staff on this critical topic for two reasons: family offices are usually not large enough to warrant staffing with risk and threat experts with relevant experience and the evolving nature of threats that family offices face requires outside expertise and updated technology solutions. When you add the complexities of remote working (even if temporary during a crisis), the need for specialized expertise becomes even more important.

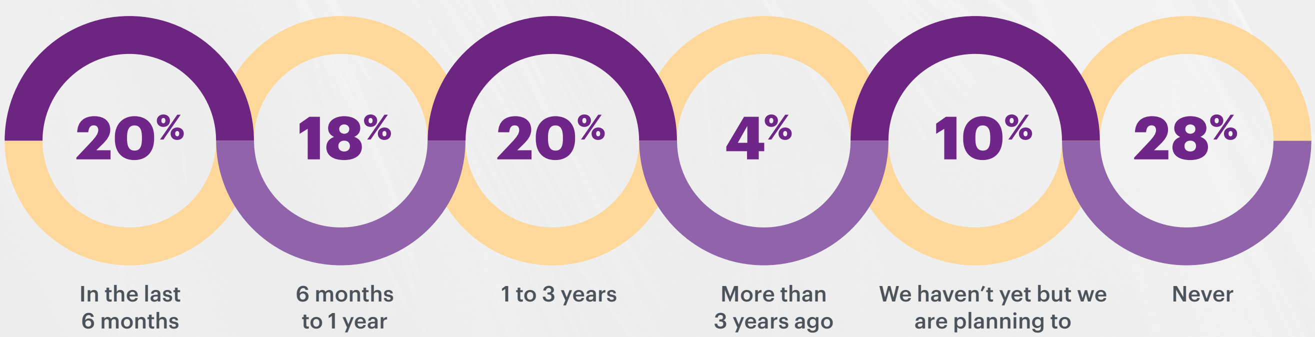
Approximately two in five family offices have not conducted a review of the risks and threats to family office members using a third-party vendor, with 28% never conducting a review and 10% planning to do so.

Two-fifths (38%) have managed to conduct a review in the past year while a fifth (20%) have done so in the past one to three years. Just 4% last did a review more than three years ago.

81% of family offices fail to conduct periodic background checks on personnel

REVIEW BY THIRD-PARTY VENDORS ON RISK AND THREAT

When was the last time your team conducted a review of the risks and threats to family members or family office clients using third-party vendor?



Family Offices Use Training to Mitigate Risks – But Is It Enough?

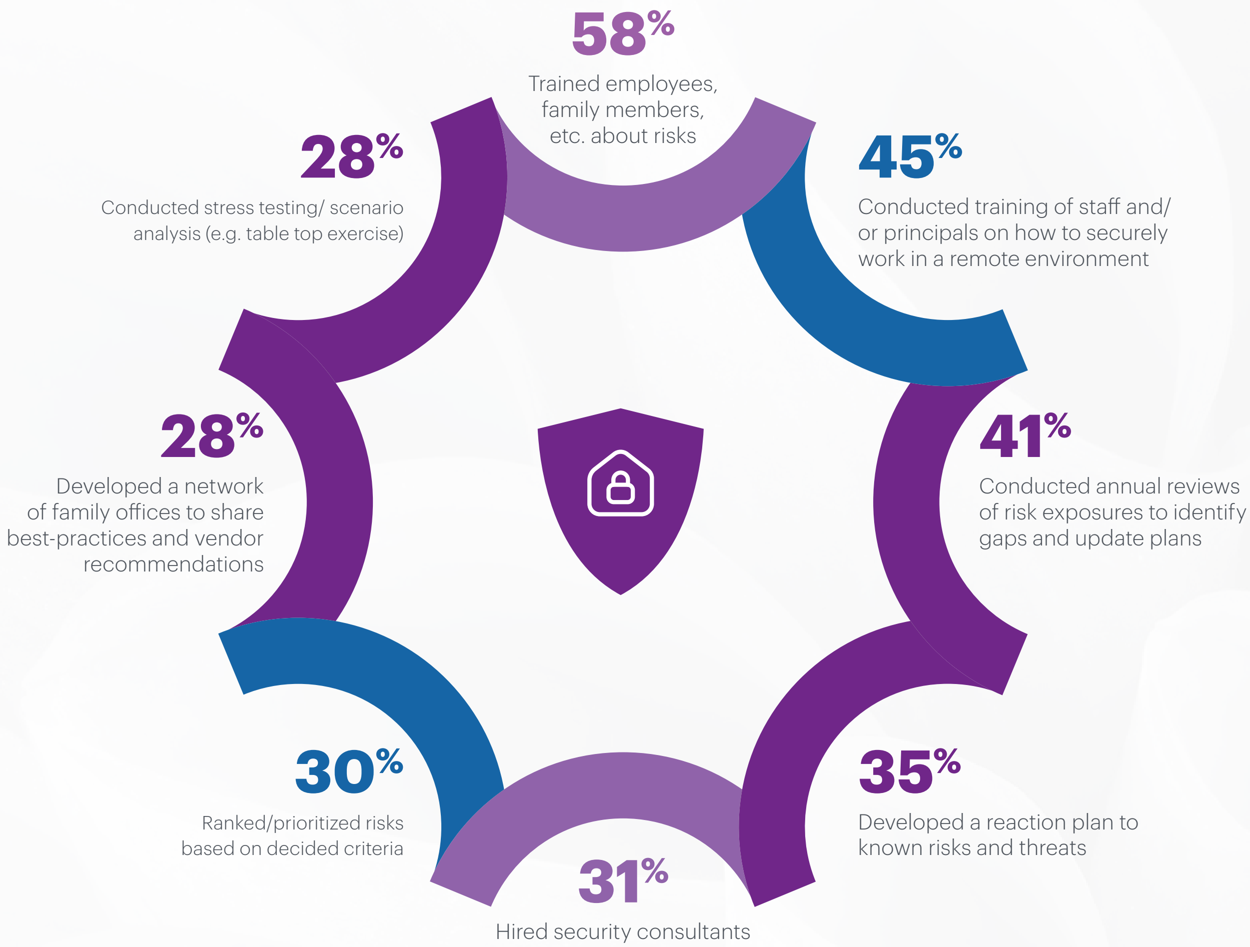
In order to counter risks to their family office, more than half (58%) of respondents have trained employees, family members and others about risks. More than two in five also conducted training on how to securely work in a remote environment (45%) and conducted annual reviews of risk (41%).

Many family offices tend to evaluate their risk and threat exposure within a functional silo, such aas cybersecurity, without considering or contemplating how enterprise risks are amorphous and can often extend across functional boundaries. A myopic assessment of functional risk often results in unrecognized gaps and vulnerabilities – only discovered in the course of an actual incident or risk event. Enterprise risk mitigation is a team sport requiring a bench of diverse skill sets, tools and strategies.

— Wesley S. Bull, Mantle Advisors LLC

STEPS TO COUNTER RISKS

Which of the following steps, if any, have you taken to counter risks to your family office?



% Yes, Multiple answers allowed

Practical Tips and Recommendations

This report highlights some of the critical areas where family offices need to improve their existing risk and threat management planning and operations. The key to success of any risk management plan is the development of an "all risk" approach that takes the entire family enterprise into account. This approach requires integrating proactive and reactive policies and measures across the different outcomes of risk.

We provide this list as a set of recommendations that family offices can leverage to improve their positions:

- Conduct a risk baseline assessment using a qualified risk and security consultant with direct experience working with family offices. Conduct at least annual evaluations after the initial assessment.
- Conduct initial background checks on all family office employees and develop mechanisms of working with legal and risk experts to monitor and conduct follow up background checks for existing employees.
- Work with healthcare advisory experts to develop and test plans around disruption of family affairs and continuity due to significant health issues or untimely death.
- Risk and threat management for family offices is a specialized area that requires professionals with applicable experience. For example, cybersecurity expertise is not the same as information technology expertise.
- Intelligence on all risks is important. For example, there are a number of cyber products available that can monitor and provide intelligence from the dark web, social media and signals coming from outside your network.
- Insist on working with vendors that go beyond "desktop due diligence" which rely solely/heavily on open-source/public information whether evaluating the family office or conducting due diligence on deals.
- Evaluate current risk and threat management providers regularly to see if service upgrades or additional help is warranted.
- Proactively discuss the annual budget for the family office allocated to risk management.
- When choosing vendors, consider the benefits of attorney-client privilege as part of a comprehensive risk and threat management strategy.
- Have crisis plans for specific scenarios (death of a principal, cybersecurity breach, social media bullying, confidential information is being leaked) and practice it.
- Keep a log of risk and threat issues the family or family office has faced in the past.
- Develop and practice continuity of operational and disaster recovery plans for physical, financial and digital assets.
- Evaluate insurable exposures regularly and during changes in the family and/or business and ensure comprehensive understanding of terms and conditions current coverage.
- Protect the devices used for business, even if it is an employee-owned device, with monitored and managed end-point security.
- Secure the local (home, home-office) ISP network, including a virtual private network (VPN) for outbound communications.

- Train and test the employees regularly on risk and threat issue identification and mitigation and review policies and procedures for employee duties and responsibilities as they pertain to information security.
- Develop networks with other family offices to share best practices and vendor recommendations.
- Inventory all devices used to access the internet; computers, laptops, phones, iPads and tablets, and maintain a list of all networks used by family members and family office staff.
- Identify all email addresses used by family members and family office staff.
- Use autonomous end-point security systems and install VPN apps to each mobile computer and smartphone.
- Employ SD-WAN security systems for comprehensive and autonomous protection of fixed-networks and devices.
- Generate and test policies for work email and internet browsing and privatize personal mail.
- Use two-factor authentication for applications whenever possible.
- Avoid easy to guess passwords, change passwords regularly, and use different passwords for different services.
- Back up data regularly and in multiple ways (on and off-site).
- Leverage password manager solutions to avoid using the same password for multiple services.
- Keep software updated on mobile and non-mobile devices.
- Use encrypted mail for sending any personal or sensitive business information (due diligence data, account numbers, family financials, credit card numbers, addresses, investment details, birth dates or social security numbers, etc.).
- Work with legal counsel to develop and execute non- disclosure agreements with family office staff.
- Identify, document and review signatory procedures throughout the family office.
- Assess and test internal controls with accounting firms that have experience working with family offices.
- Review family office policies to ensure compliance with federal, state and local laws.
- Develop and maintain a document collection and management process that is applicable to current and potential future family office requirements.
- Plan and conduct table top exercises ("simulated war games") with relevant family members, family office staff and external advisors.
- Develop, document, and practice a cyber and privacy "breach plan" with internal and external stakeholders.

Background of the Survey

Methodology

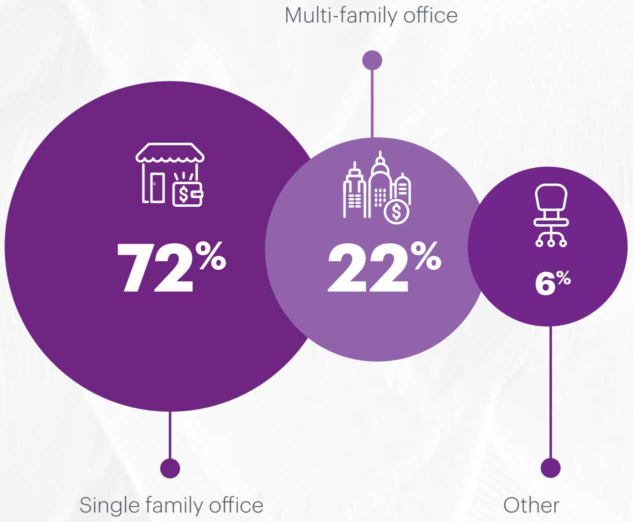
Data for this report was collected using an online survey among 200 family office executives. Data was collected from May 25 – August 10, 2020. The survey was administrated by an independent research company, CoreData Research and the analysis of results were completed by Boston Private and our survey partners. Respondents were sourced from a mix of Boston Private and our survey partner databases.

Demographics

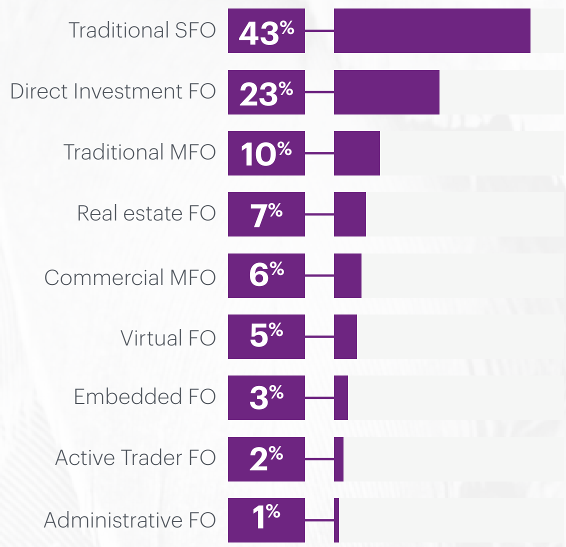
Respondents represented a diverse mix of family office archetypes. Below are some of the demographic highlights of our respondents:

- Most respondents were single family offices and described themselves as traditional SFOs.
- Most of the family offices were between $100 million and $5 bilion in net worth (2% of family offices did not disclose their net worth).
- A majority of the family office executives had worked in the family office industry for more than a decade.
- Staffing size of the family offices was split quite evenly across the range with a slightly higher number of family offices with 4-8 staff members.
- Most of the family offices had been in business for 10+ years (60%) or at least 3-10 years (27%).
- Family offices were evenly split on the question of association with an operating business.
- Geographically, family offices were concentrated in the Northeast and Southern states of the U.S. with 9% international responses (Australia, Brazil, Canada, Europe, Germany, Hong Kong, Italy, Mexico, Peru, Portugal, Singapore, South Africa and United Kingdom).
- Most family offices served three generations or less and 19% served the original wealth creator.

WHICH OF THE FOLLOWING BEST DESCRIBES THE TYPE OF ORGANIZATION YOU WORK IN?



WHAT SUB-TYPE OF FAMILY OFFICE (FO) WOULD BEST DESCRIBE YOU?



Commercial MFO: A business staffed with professionals that offer family office services. Sometimes executed through a discrete partnership and other times on an existing platform of a bank, financial services firm, accounting firm, or law firm.

Real Estate FO: Primary assets are real estate and tend to invest mostly in real estate assets. Family office functions are often embedded in the operating company and focus on managing the personal affairs of the principals.

Traditional SFO: Provide solutions over a broad range of service and advisory needs, historically through their own staff.

Traditional MFO: One family partners with a few other families to provide services to unrelated families; not designed as a commercial entity but more of an effort to share expenses and connect with a small number of like-minded families.

Embedded FO: Integrated into operating companies and usually provide family office services leveraging existing family business employees.

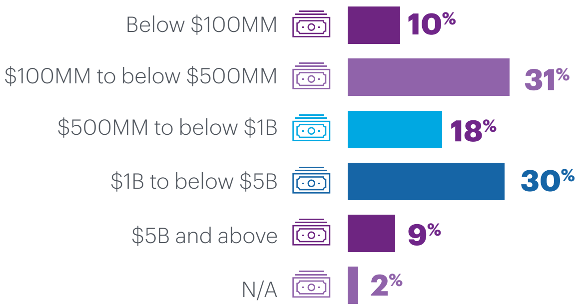
Virtual FO: Outsource staff as much as possible and family office service delivery coordinated by a single party (e.g. law firm, accounting firm, financial services firm).

Direct Investment FO: Focus their investment activities almost exclusively on private investing.

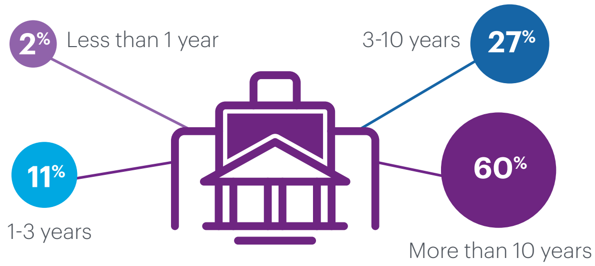
Active Trader FO: Typically larger family offices that focus on active investment strategies in liquid capital markets; e.g. former hedge fund managers.

Administrative FO: Limited generally to non-investment related activities. Focus their efforts on managing personal assets, administration, wealth education, among other areas.

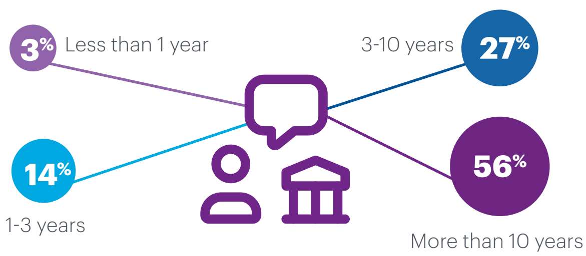
What is the cumulative value of assets over which your organization is responsible, including real estate and private investments if applicable?



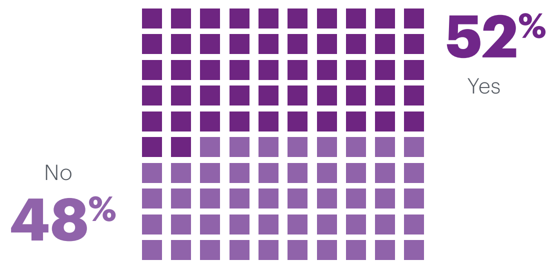
How long has your family office been in existence?



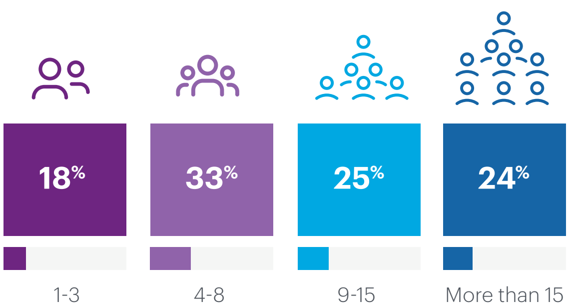
How long have you worked in the family office industry?



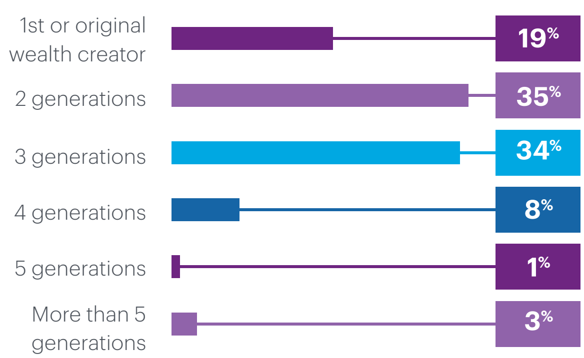
Is your family office associated with an operating business?



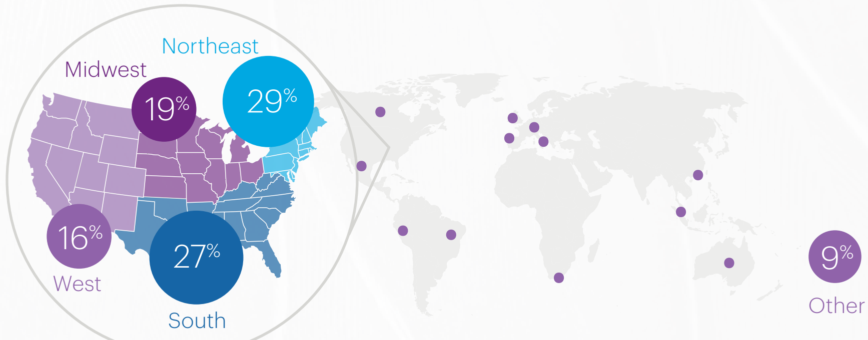
How many people work in your family office?



How many generations of family members do you serve at the family office?



What state in the US or country in the world is your organization located?



Our Survey Partners

Many thanks to our survey partners at Boston Private, The Chertoff Group, McNally Capital and Datatribe for their support in the development and deployment of the survey, and for lending their expert insights into the global risks and threats family offices face.

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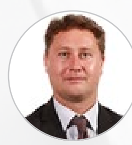

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